U.S. SECRETARY OF EDUCATION
LAURO F. CAVAZOS

# STUDENT LOAN DEFAULT REDUCTION INITIATIVES

Remarks Made at
Press Conference

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# Student Loan Default Reduction Initiatives

As a former university president, I personally know the Federal aid programs, the good they do, and the opportunities they offer those least able to pay their own way. But, I also know there are some unscrupulous and uncaring institutions out there who are taking advantage of a program designed to help our students; not financially shackle them.

I am aware of the thousands that have been and continue to be assisted by Federal loans. But, I am also acutely aware of the frustration and despair of young people and their families when they are misled, cheated, and abused. Many of you in this room know the story. You've written stories about people recruited, induced to sign a piece of paper, the course is a sham, the student leaves with payments due on a federally insured loan but no employable skill. It is a cycle that has been repeated countless times in communities everywhere in this land.

Efforts to date have not been able to stem the tide of ever-increasing student loan defaults. Worse still, until today, we have not been able to attack successfully the abuses and conditions that generate these defaults and take from students the opportunities in life that education promises. I'm sure that you've heard the same stories we've heard—about unethical schools that fail to provide a high quality education, that neglect to inform students of their obligations in assuming a loan, and that do not provide full and accurate information about their courses and placement rates. This is the real tragedy of the student loan defaul problem.

The letters from students that I have seen have convinced me that abuses have become so rampant that—let the buyer beware—will no longer suffice as public policy in education.

The initiatives I am announcing today are based upon the more than 3,600 public comments we received, and scores of meetings with interest groups and members of Congress. Make no mistake, although this package of reform is tough, it's also responsible.

When the Congress, nearly a quarter of a century ago, created the Guaranteed Student Loan program, the promise was—still is and must always be—that every American has a right to pursue an education to whatever level his or her talent and determination will allow. It was never intended,

however, that there would come a time when 37 cents out of every GSL dollar would go to cover loans not repaid. This year we estimate the default price tag at $1.8 billion.

Our initiatives will be criticized by some: those who care more for enrollment numbers than education, for profits than service, those whose careers depend on business as usual, those who are inept and fear accountability—they will be dismayed.

**"It was never intended, however, that there would come a time when 37 cents out of every GSL dollar would go to cover loans not repaid."**

Some will contend that we might be limiting access for disadvantaged students. To them I say, we do no one—leas of all the students themselves—a favor by subsidizing a shoddy education at an inferior school. Look around. It is not difficult to find well-managed vocational schools and community colleges where disadvantaged students get a second chance, an opportunity to learn and to grow. Of course it can be done. It is being done every day in schools all across this country and I commend those schools and appreciate their efforts. Our regulations encourage a positive approach that emphasizes improvement of loan programs; not a negative approach that could harm students.

Others will insist we have not moved decisively enough. To them I say, they are wrong and these are demanding regulations. Let me clarify another point. It is not realistic to impose an absolute and immediate cut-off at 20 percent. Such an action would mean over 2,500 colleges, universities and proprietary schools would be impacted immediately. Th reality is that the Education Department does not have the resoures and personnel to enforce in a timely fashion such a cut-off level. We would be years in enforcing our own regulations. However, in the regulations proposed today there is no shelter for the unscrupulous and no comfort offered to the irresponsiblethe more stringent default reduction measures on schools with the highest default rates. These schools are required to do the most to reduce de- lts. The regulation also provides the lead-time necessary

or implementing these provisions. In short, while addressing ne default issue forcefully and comprehensively, this package does so in a way that is reasonable and fair in its mposition of burdens on participants in the program. And urther, our overall default-reduction strategy will save an estimated $5.4 billion over the next ten years.

At this point I'd like to summarize briefly each of the three parts of this initiative.

**REGULATORY INITIATIVES**

Today, we are publishing two regulatory notices: a final regulation on Guaranteed Student Loan defaults, published nitially as a proposed rule on September 16, 1988, and a new proposed rule containing additional default reduction measures.

Our final regulation contains the following key provisions:

• A graduated series of default rate "triggers" and default-reduction measures for postsecondary institutions.

**"Our default rate "triggers" are immediately toughest on the worst offenders."**

• Consumer-information requirements designed to better inform students of their educational opportunities *and their loan obligations.* In the past, students have had more consumer information about the cars they buy than the schools they attend.

• A pro-rata tuition refund policy for high default schools.

• A provision for delayed certification and disbursement of student loan funds, also for high default schools.

Our default rate "triggers" are immediately toughest on the worst offenders. Schools with default rates above 60 percent in 1991—and there are nearly 200 of them currently—are subject to Department limitation, suspension, and termination (LS&T) actions. Schools with default rates between 40 and 60 percent—450 of them—would have to reduce their default implement a pro-rata tuition refund policy and also be required to delay certification of loans to first-time borrowers.

This action would markedly impact their cash flow. All schools with default rates greater than 20 percent are s to Department review and requirements to implement d management plans. Lastly, the final regulation applies certain default reduction requirements—including consu protection measures such as entrance counseling of pro spective students—to schools with defaults less than 20 percent—in effect, all schools.

Our new proposed rule contains two additional defaul reduction measures: private vocational schools must ha "teach-out" arrangement in case the school closes. The also the requirement that lenders that purchase a loan fr another lender notify the borrower.

**ADMINISTRATIVE INITIATIVES**

I also am announcing a series of administrative action improve our default-prevention efforts, toughen the enfor ment of existing Guaranteed

Student Loan program requirements, and strengthen l collection efforts.

**"We also will take significant steps to strengthen the enforcement of Guarenteed Student Loan Program statutory and regulatory requirements."**

Our highest priority is to prevent defaults from occurring the first place. Accordingly, we are focusing on consumer protection by better informing students, by improving the of those who administer the Guaranteed Student grams and by disseminating widely information o n techniques.
cant steps to strengthen the Student Loan Program statuto forcement will take artment reviews of increased audits of due diligence arantee agencies ll-free hotline.

We believe that these actions will improve our own collection efforts as well as those of the guarantee agencies. The goal is to reduce our net default costs. This year, for example, we expect GSL default collections to total $630 million, an increase of 27 percent over last year. Further, we expect 1990 collections to total nearly $800 million.

**LEGISLATIVE INITIATIVES**

I will send to Congress proposals for new laws to combat student loan defaults.

These proposals include several key default reduction and collection improvement measures:

- *Tightening up the "Ability-to-Benefit" provision*, by requiring non-high school graduates to pass a GED or "ability to benefit" test prior to enrollment. The ability to benefit test would be designed and administered by an independent organization designated by the Secretary, rather than by the school, as is now the case.
- *Requiring lenders to offer student borrowers graduated repayment schedules.*
- *Requiring pro-rata refunds at high default schools, as applied to all Department student aid programs.*
- *Prohibiting schools from employing commissioned individuals in recruiting or admissions activities.*
- *Authorizing guarantee agencies to garnish defaulter's wages, up to 10 percent of disposable pay.*

**"The ability-to-benefit amendments significantly reduce an institution's ability to abuse the underpriviliged by enrolling them in programs they cannot complete or from which they cannot learn a trade."**

The ability-to-benefit amendments significantly reduce an institution's ability to abuse the underpriviliged by enrolling them in programs they cannot complete or from which they cannot learn a trade. The requirement that participating lenders provide borrowers with graduated repayment schedule options, in addition to the usual level payment

plans, will substantially reduce the monthly repayment burdens faced by many student borrowers early in their careers. The pro-rata tuition refund requirement and the commissioned recruiter prohibition will protect students as well as the taxpayer from unscrupulous institutional practice in these areas. Coupled with our regulatory changes, these proposed laws will remove current incentives that lead many schools to concentrate on numbers of enrollees and profits rather than graduation rates and other educational outcomes.

In conclusion, let me emphasize that I want to work with a participants in the Guaranteed Student Loan program to assist them in reducing their default rates. But at the same time, we must weed out unethical schools and other program participants whose sole purpose is to profit at the expense of our students and taxpayers.

Today we are taking decisive action against those who cheat our citizens, those who promise to educate, but deliver only a debt. Education is our nation's greatest resource. It cannot be left in the hands of those who would abuse it.

Lauro F. Cavazos was asked by President George Bush to continue as Secretary of Education following the November 1988 presidential election. Secretary Cavazos was originally nominated for the post by President Ronald Reagan on August 9, 1988, and was unanimously confirmed by the Senate on September 20, 1988.